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Nos. 86-495, 86-624, 86-625

IN THE

Supreme Court of the United States

OCTOBER TERM, 1987

K MART CORPORATION,
Petitioner
v.
CARTIER, INC., *et al.*

47TH STREET PHOTO, INC.,
Petitioner
v.
COALITION TO PRESERVE THE INTEGRITY OF AMERICAN TRADEMARKS, *et al.*

UNITED STATES OF AMERICA, *et al.*,
Petitioners
v.
COALITION TO PRESERVE THE INTEGRITY OF AMERICAN TRADEMARKS, *et al.*

On Writs of Certiorari to the United States Court of Appeals for the District of Columbia Circuit

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MOTION FOR LEAVE TO FILE SUPPLEMENTAL BRIEF AND SUPPLEMENTAL BRIEF ON REARGUMENT FOR PETITIONER 47TH STREET PHOTO, INC.

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Petitioner, 47th Street Photo, Inc., moves this Court for leave to file the accompanying Supplemental Brief in advance of reargument on the merits. This brief re-

sponds to respondents' Supplemental Brief filed with this Court on April 4, 1988.

Respectfully submitted,

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SUPPLEMENTAL BRIEF ON REARGUMENT FOR PETITIONER 47TH STREET PHOTO, INC.

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1. *What Did Section 526 Mean in 1922?*

What was meant by a law enacted more than 65 years ago that gave an unusual "private right" [1] to bar importation of goods to "a corporation . . . created or organized within, the United States, and . . . domiciled in the United States"? COPIAT asserts that the "plain language" of that statute extended this singular "private right" even to a corporation chartered in the United States but wholly owned and totally controlled by a foreign corporation. If the law had been enacted in 1982, rather than 1922, there might be room to argue that by not explicitly excluding wholly-owned corporate subsidiaries of foreign corporations, Congress' "plain language" included them. But what is "plain" today was not "plain" 65 years ago.

At that time, layering of corporate ownership was in its infancy. In the early 1920's, this Court was still in the process of considering the legal consequences of a corporation's complete ownership of another corporation. A 1918 ruling said that if a corporation owned stock "for the purpose . . . of controlling a subsidiary company so that it may be used as a mere agency or instrumentality of the owning company or companies . . . the courts will not permit themselves to be blinded or deceived by mere forms of law, but, regardless of fictions, will deal with the substance of the transaction involved as if the corporate agency did not exist and as the justice of the case may require." *Chicago, Milwaukee, & St. Paul Ry. Co. v. Minneapolis Civic & Commerce Ass'n*, 247 U.S. 490, 501 (1918).

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[1] In its decision of March 7, 1988, in this case, the Court majority characterized the authority conferred by Section 526 of the Tariff Act of 1930 (originally enacted in 1922) as "a mechanism by which a private party might, at its own option, enlist the Government's aid in restricting the quantity of imports in order to enforce a private right." *K mart Corp. v. Cartier, Inc.*, Nos. 86-495, 86-624, 86-625, slip op. at 7-8 (March 7, 1988).

Other contemporaneous decisions similarly refused to grant substantive recognition to a corporation's wholly-owned subsidiary. In *Hart Steel Co. v. Railroad Supply Co.*, 244 U.S. 294, 298 (1917), a wholly-owned corporate subsidiary was held to be "a mere sales agent" of its corporate parent.[2] And in *Gulf Oil Corp. v. Lewellyn*, 248 U.S. 71 (1918), a corporate parent and its subsidiaries were treated as "a single enterprise." Justice Holmes expressed the then-current skepticism over these legal forms, which he brushed aside as merely "bookkeeping," when he said (248 U.S. at 72):

> It is true that the petitioner and its subsidiaries were distinct beings in contemplation of law, but the facts that they were related as parts of one enterprise, all owned by the petitioner, that the debts were all enterprise debts due to members, and that the dividends represent earnings that had been made in former years and that practically had been converted into capital, unite to convince us that the transaction should be regarded as bookkeeping rather than as "dividends declared and paid in the ordinary course by a corporation."

More than two decades later, this Court repeated the proposition that "where a holding company directly intervenes in the management of its subsidiaries so as to treat them as mere departments of its own enterprise, it is responsible for the obligations of those subsidiaries in-

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[2] The legislative history of Section 526 establishes, beyond any shadow of doubt, that Congress did not intend to give the statutory right of exclusion to an "agent" of a foreign trademark owner. Senator McCumber said (62 Cong. Rec. 11,605 (August 19, 1922)):

> The mere fact of a foreigner having a trade-mark and registering that trade-mark in the United States, and selling the goods in the United States through an agency, of course, would not be affected by this provision.

In light of the cited Court decisions that treat a wholly-owned corporate subsidiary as an "agent" of the parent, Senator McCumber's remark may well have been designed to govern corporate subsidiaries.

curred or arising during its management." *Consolidated Rock Prods. Co. v. Du Bois*, 312 U.S. 510, 524 (1941). This was deemed fair because "[a] holding company which assumes to treat the properties of its subsidiaries as its own cannot take the benefits of direct management without the burdens." *Id.*

Should the 1922 Congress have explicitly excluded from Section 526 the case of a foreign "holding company" that owned the stock of a corporation "created or organized within the United States?" In light of then-prevalent attitudes towards such a corporate structure, it hardly seemed necessary. In any event, the failure of Congress to advert expressly to this particular technique of appointing a local "agent" does not reflect the "plain meaning" of the law in 1922.

This Court very recently considered the historical context of a later statute than Section 526 in giving the later law an application that actually conflicted with its "plain language." Although the Housing Act of 1937 exempted certain local obligations "from all taxation now or hereafter imposed by the United States," the Court unanimously held that such obligations were not exempt from estate taxes. *United States v. Wells Fargo Bank*, No. 86-1521 (March 23, 1988). The Court relied on a distinction between direct taxes and excise taxes which was "understood" before 1937. The meaning of a relayed 1973 statute was also discerned by examining the 1937 form of income taxation—then divided into "normal" taxes and "surtaxes." Slip op. at 5. It is clear, therefore, that the contemporaneous meaning of the statutory terms affects the "plain meaning" of a law.

2. *Who Should Enjoy the "Private Right" Conferred by Section 526?*

Both the language and the legislative history of the law make it unquestionably clear that Congress had no desire in 1922 or in 1930 to confer the new statutory

right on *foreign* corporations. Yet the effect of COPIAT's argument is to give a foreign manufacturer the power to limit importation of its own goods if it goes to the trouble of incorporating a United States subsidiary and assigns ownership of its trademark to the subsidiary. This flies in the face of the established principle "that the interposition of a corporation will not be allowed to defeat a legislative policy, whether that was the aim or only the result of the arrangement." *Anderson v. Abbott*, 321 U.S. 349, 362-363 (1944). As this Court observed in *Anderson v. Abbott*, the concern should be "with realities not forms." *Id.* COPIAT's proposed statutory reading would elevate form over substance by encouraging assignment of foreign-owned trademarks to newly created American corporations.

COPIAT argues that its members are not only American agents controlled by foreign parent corporations, but also American principals which are foreclosed from invoking the statutory right to exclude if their goods are manufactured abroad. This is a new mask that COPIAT has belatedly donned, because the primary issue presented by this case, as described by the court below, "typically arises when a foreign producer creates an American subsidiary that then registers the American trademark." *COPIAT v. United States*, 790 F.2d 903, 904 (D.C. Cir. 1986). The foreign parent company not only retains the power to dictate the price at which goods will be sold in the United States and to choose the retailers who will be permitted to sell those goods, but it can also structure intra-company transactions to shift its profits off-shore, thereby depriving the United States of tax revenues. *See, e.g., Olympus Corp. v. United States*, 627 F. Supp. 911, 913 (E.D.N.Y. 1985), *aff'd*, 729 F.2d 315 (2d Cir. 1986), *cert. pending*, No. 86-757.

The legal issue controls, as well, multinational entities with complex corporate structures that cannot be defined as principally American. In *Parfums Stern, Inc. v. United States Customs Service*, 575 F. Supp. 416, 418

(S.D. Fla. 1983), a district court found that the plaintiff, an "American corporation" that is also a named plaintiff in this case,

> is a cog or entity in what appears to be a single international enterprise operating through an amoeba-like structure . . . [which] either by reason of holding the Oscar de la Renta trademark or by way of license and/or contractual rights granted to it or one of its entities, holds the right to manufacture, distribute, promote, or otherwise utilize Oscar de la Renta fragrance products throughout the world.

There are, to be sure, foreign manufacturers who own corporate subsidiaries that are not mere shells. COPIAT cites Michelin Tire Corporation, that assertedly "operates five plants in the United States" where most of the tires distributed in this country are manufactured (COPIAT Supp. Br., p. 8). Tires manufactured in the United States are, of course, not subject to Section 526 at all. The law in question applies only to products manufactured outside the United States, and foreign corporations establishing production plants within the United States retain the same rights to control their own sales that American companies have.

COPIAT thinks it inequitable that Leica and Nikon products could, before 1981, be excluded under Section 526 by their independent American trademark owners but cannot now be excluded because the foreign manufacturers of those products acquired the American corporations that own the trademarks (COPIAT Supp. Br., pp. 8-9). But the acquisition of the American corporations by Leica and Nikon gave the parent foreign corporations the power to fix prices, select retailers, and allocate territories. It also gave the parent foreign companies the ability to establish artificial differences between the prices of their products in foreign markets and their prices in the United States. If COPIAT's position is sustained, the dominant foreign corporations can

now insulate their American markets from price competition in their own products from the European or Asian markets by exercising the "private right" to exclude conferred by Section 526.

Before 1981, the local distributors of Leica and Nikon products were wholly American, and it was sound policy to permit them to bar foreign-manufactured products bearing the same trademarks as theirs. The independent American distributors had expended American funds in advertising campaigns and had developed their own affiliations in the public's mind with the trademarked products. Moreover, they could independently set the prices at which their products would be sold. If the foreign manufacturers charged more than they charged to foreign distributors, presumably the independent U.S. distributors could buy abroad. For the same reasons as were stated by Justice Holmes in *A. Bourjois & Co. v. Katzel*, 260 U.S. 689 (1923), it was equitable to permit the independent American concerns to bar competition from identically trademarked authentic products produced abroad. A different situation was presented once the foreign manufacturer and the American distributor became, in essence, the same. After 1981, there was no reason to give the foreign parents the right to shield their American market from price competition they generated by selling the same products more cheaply elsewhere.

American corporations, such as Duracell, that choose to manufacture goods abroad through foreign corporations should also have no right to keep the products made abroad, once sold in foreign commerce, out of the United States. Congress was not intending in 1922 or 1930 to protect American manufacturers from price competition in their own goods if manufactured outside the United States. American manufacturers with foreign manufacturing affiliates are not the entities that the 1922 and 1930 Congresses sought to protect. Such manufacturers control the form and the price of the goods they choose

to sell abroad and in the United States. If they determine to charge disparate prices for the same product, they must endure the consequences of that choice—*i.e.*, intraband price competition.

3. *Has the Customs Service's Policy Been Long-Standing and Consistent?*

COPIAT claims that the Customs Service has been "belated" and "inconsistent" in its position on parallel imports. If there were any validity to this claim, COPIAT should be able to cite one articulation of the Customs Service's policy in 65 years in which it permitted a subsidiary of a foreign manufacturer to utilize Section 526 to exclude parallel imports. It cannot. Instead, COPIAT magnifies slight differences in basically similar regulations designed to express a consistent policy—*i.e.*, that an American trademark owner that shares common ownership with a foreign manufacturer cannot invoke Section 526.[3]

Congress has known Customs' policy throughout the period it has been in force. Congress was explicitly informed in 1944 that Customs regulations embodied such a policy when it considered and passed the Lanham Act. Congress also indicated its familiarity with the policy on subsequent occasions, and it was even discussed re-

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[3] COPIAT suggests that Customs could have more explicitly described in its 1936 regulation how foreign and domestic corporations could be under common control or ownership. It argues that such corporate interrelationships were known at a time when Congress passed complex New Deal corporate regulatory statutes. COPIAT Supp. Br., p. 10. But Customs could then—as now—have rationally concluded that it could not anticipate all ways in which foreign and domestic companies may act under common control. This is amply illustrated by the assertion made by one COPIAT member to the District Court that it "has no affiliation" with its foreign manufacturer when another district court has concluded that they are both part of "a single international enterprise." *See Parfums Stern, Inc. v. United States Customs Service*, 575 F. Supp. 416 (S.D. Fla. 1983).

cently during the Senate debate on the Prescription Drug Marketing Act of 1987, which deals with the reimportation of prescription drugs manufactured in the United States.[4]

4. *How Does COPIAT's Argument Affect Established Trademark Law?*

COPIAT asserts that its members' trademarks entitle them to exclusive "territorial" distribution rights in this country. If that were the law, any trademark owner—even a wholly foreign company that owned an American trademark—would have the right, apart from Section 526, to enjoin the sale of all goods bearing that trademark except for those that it imported. That is clearly not the law.

COPIAT dismisses this Court's leading trademark cases as merely dealing with "remedy." COPIAT Supp. Br., p. 5. One cannot read either *Champion Spark Plug Co. v. Sanders*, 331 U.S. 125 (1947), or *Prestonettes, Inc. v. Coty*, 264 U.S. 359 (1924), however, and fail to conclude that once a trademark owner sells his product he may not thereafter control its resale price or distribution unless there has been deception as to the origin of the goods.[5]

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[4] On March 31, 1988, immediately prior to passage of the Act, Senators Chafee and Rudman expressed their uncontradicted understanding that the new law does not affect parallel imports. Senator Chafee said (134 Cong. Rec. S. 3684 (March 31, 1988)):

> I wish to clarify that this bill does not affect parallel imports or "gray market" goods . . . .
>
> The distribution of gray market goods by independent importers was [sic] long been legal in this country and in all the countries which are our major trading partners.

[5] COPIAT objects to the citation of 3A Callman, *The Law of Unfair Competition, Trademarks and Monopolies* § 21.13, at 62 (Altman, 4th ed., 1983 and Supp. 1987) in our Opening Brief, asserting that a more relevant citation (*id.* § 21.17, at 74) is omitted. The allegedly omitted entry specifically rejects the "territoriality"

Trademarks cannot be used for anti-competitive purposes and cannot be used to establish resale prices unless there is a clear showing that the economic benefits to competition outweigh the disadvantages. *Continental TV, Inc. v. GTE Sylvania, Inc.*, 433 U.S. 36 (1977). Congress reaffirmed this policy choice when it passed the Consumer Goods Pricing Act of 1975, P.L. 94-145, 15 U.S.C. § 1, which repealed exemptions to the antitrust laws for state laws which "legalized price fixing by which the owner of a . . . trademarked article determines the price charged by the retail merchant." 117 Cong. Rec. S. 38,049 (Dec. 2, 1975).

COPIAT argues that parallel imports must be excluded under Section 526 because such goods "intended for other markets other than the United States are often not the same goods that United States consumers associate with the familiar trademark on them." COPIAT Supp. Br., p. 7. If so, the manufacturers of these dissimilar products are unlawfully abusing their trademarks, and their trademark rights are subject to forfeiture. A principal objective of the Lanham Act was to enable the public to rely on trademarks as indicators of uniform quality. Section 5 of the Lanham Act, 15 U.S.C. § 1055, was designed to insure that an American trademark registrant stand behind the uniform quality of its product. This applies not only to the products its produces, but also to products to which its "related companies" apply its mark. If it fails to maintain such "uniform

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theory when the foreign and domestic trademark owners are related (*id.* at 75-76) (emphasis in original):

> The concept of territoriality is a proper one for drawing boundaries between two *different* trademark proprietors who have developed independent goodwills in separate territories; but that does not necessarily mean that its influence should be extended to a case involving goods of common origin representing only one goodwill. A trademark has more than static existence created by its registration on a national basis; it also has the dynamism generated by international use.

quality," the mark will be held to have been abandoned. *Oberlin v. Marlin American Corp.*, 596 F.2d 1322, 1327 (7th Cir. 1979). *Accord, Huntington National Mattress Co. v. Celanese Corp. of America*, 201 F. Supp. 938, 945 (D. Md. 1962).

It is difficult to sympathize with manufacturers who deliberately produce inferior products for sale in foreign markets and willfully affix to those sub-quality products the same trademark that has been associated with superior goods in the United States. If the reputation of a superior-quality product is being exploited by a manufacturer's use of the same trademark on a low-grade product, the manufacturer cannot complain if his own marketing tactics confuse consumers. His remedy is to change his own practices, not to demand that the law protect his duplicity.

5. Has There Been Reliance on Customs' Policy?

Because the Customs Service has, for over fifty years, permitted parallel importation when the foreign and domestic trademark owners are the same, American purchasers of cameras, perfume, watches and other consumer goods have been paying prices for foreign-manufactured goods that are not totally out-of-line from what is charged elsewhere in the world. Many retailers sell some parallel imports and, for an entire segment of the retailing community, access to parallel imports is a significant element of their businesses. If a legal barrier to parallel importation is now erected at the border, higher prices will inevitably follow and significant changes will be wrought in an industry that has come to rely on duly promulgated regulations of long-standing.[6] 47th Street Photo, which has built its business by providing quality goods at discount prices, which invests hundreds of thousands of dollars annually in

[6] The 1972 regulations that COPIAT is challenging were issued following notice of proposed rulemaking and public comment. 35 Fed. Reg. 19,269 (1970); 37 Fed. Reg. 20,677 (1972).

advertising and promotion of these goods, and which employs hundreds of employees, will be seriously affected, as will many other similarly situated retailers and importers.

COPIAT acknowledges that its members have opposed the regulations in issue at least since 1972, but that they took no action until well over a decade later. In these circumstances, the substantial reliance interests of 47th Street Photo, of other independent retailers, and of thousands of consumers should be honored. *N.A.A.C.P. v. N.A.A.C.P. Legal Defense and Educational Fund, Inc.*, 753 F.2d 131 (D.C. Cir.), *cert. denied*, 472 U.S. 1021 (1985).

CONCLUSION

For the foregoing reasons and those stated in our principal briefs, the judgment of the court of appeals should be reversed.

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